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Honorable City Council
Detroit, Michigan

The Office of the Auditor General has reviewed and analyzed the Mayor's proposed budget for the 2002 - 2003 fiscal year. Chart I, on page ii, shows the major revenue components of the City's general fund budget, the estimated results for the current year, and the actual performance for the previous eight years.

The most obvious conclusion we can draw from Chart I is that the City's total revenue from major sources has increased each year, with one exception, 2000 - 2001. In fact, when the casino revenues first kicked in, three years ago, the City's revenues increased by more than $75 million.

As depicted in Chart II and the accompanying table on page iii, the anticipated revenue for the 2002 - 2003 fiscal year is expected to exceed the current fiscal year by $12 million **before** the additional infusion ("casino enhancement") from the casinos.

Chart III on page iv shows the total revenues from the major sources **including** the casino enhancement, an additional payment of $55 million to be received from the three casinos.

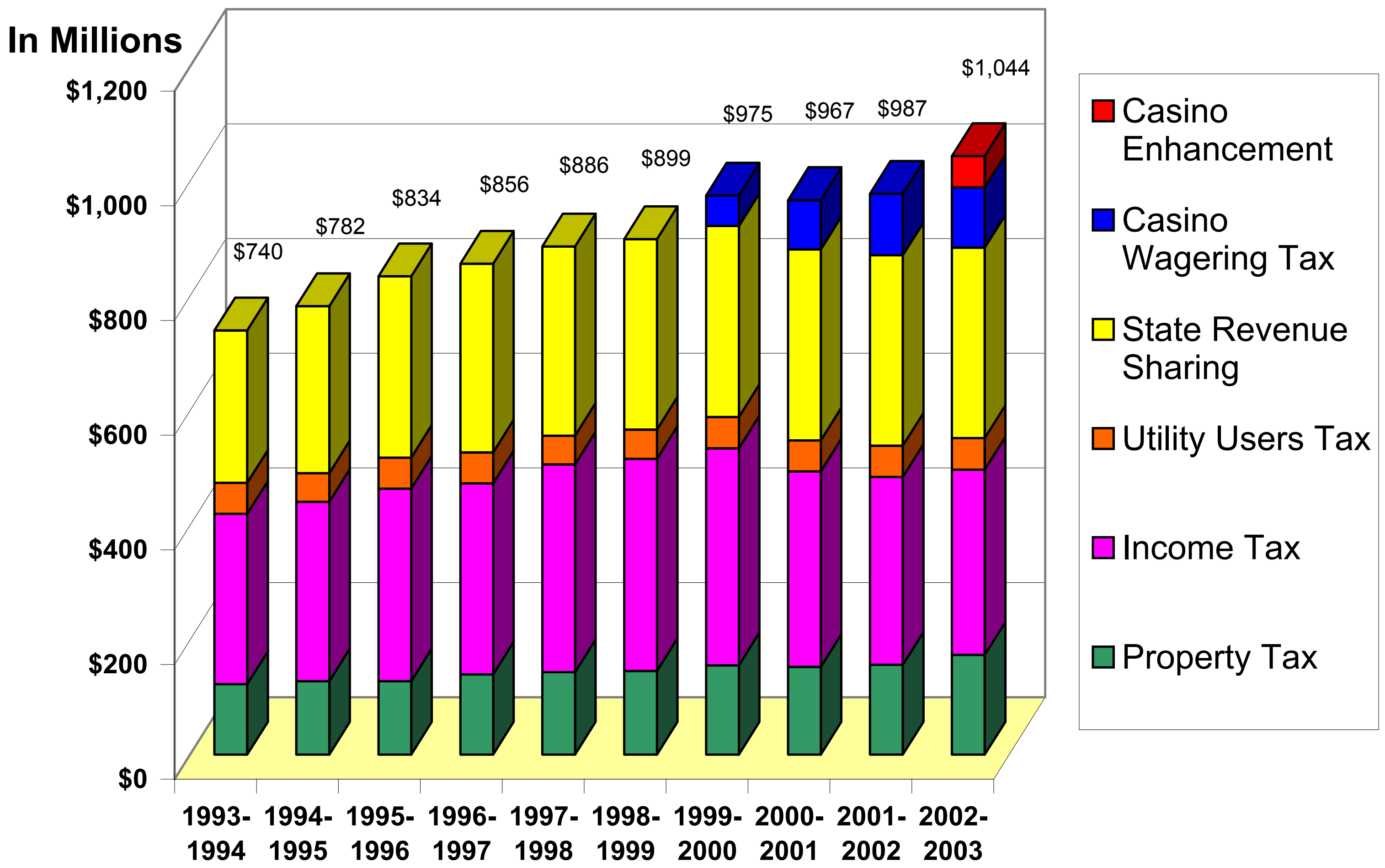
The tables also reflect the fact that the City's annual revenues from income tax, property tax, utility users tax, and state revenue sharing are projected to be roughly the same in 2002 - 2003 as five years ago; that decreases in income tax collections will have been largely offset by increases in property tax collections; and that the $100 million increase in total revenues from our major sources is attributable to the casinos.

Despite the increase of $100 million in general fund revenues from these sources in five years, we are told that we must close the Belle Isle Zoo, raise bus fares, and defer pay raises for City employees.

We are told that we would not have had to take these measures if we had not been forced to do so by the State legislature.

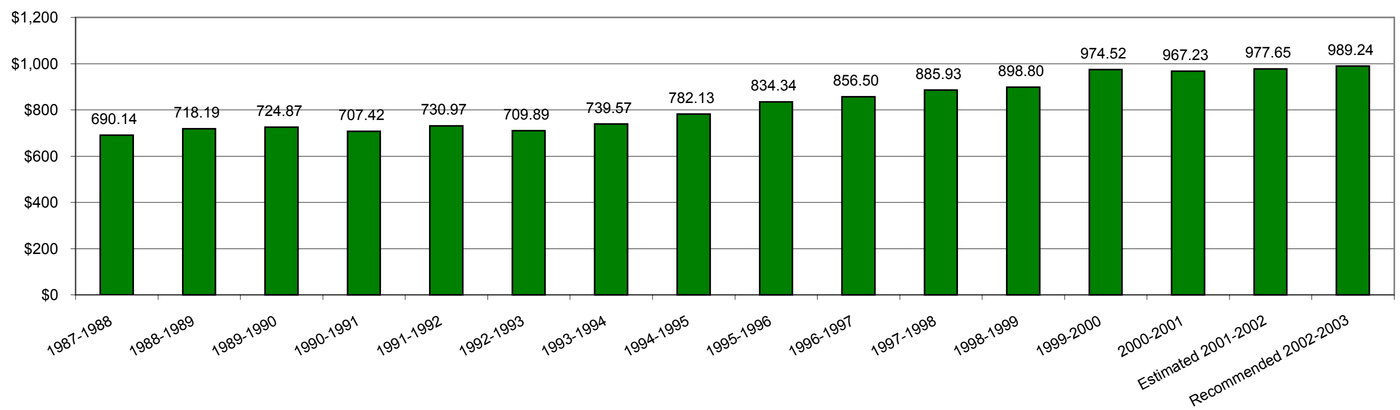
In my opinion, it is unfortunate that Lansing had to force us to reduce our income taxes. In my opinion, we should have done so on our own, and we should have done so in conjunction with the influx of tax revenues from the Casinos - as we have been forced to do. Our taxes have been too high for too long, and have harmed our City greatly by provoking many citizens to move to other communities - and by giving City officials the false illusion that they could continue to operate inefficiently ad infinitum.

City of Detroit
General Fund
Major Revenue Sources
For the Ten Fiscal Years 1993-1994 through 2002-2003



CITY OF DETROIT
GENERAL FUND
MAJOR REVENUE SOURCES WITHOUT CASINO ENHANCEMENTS
FOR THE FISCAL YEARS 1987-1988 THROUGH 2002-2003

Fiscal Year		Property Tax	Income Tax	Utility User Tax	State Revenue Sharing	Totals Before Casino	Casino Wagering Tax	Totals
1987-1988		$ 118,200,532	$ 273,655,479	$ 50,393,292	$ 247,890,740	$ 690,140,043		$ 690,140,043
1988-1989		119,876,137	283,749,003	51,228,062	263,336,813	718,190,015		718,190,015
1989-1990		118,682,602	267,685,618	56,295,133	282,210,803	724,874,156		724,874,156
1990-1991		119,879,456	273,173,278	48,271,755	266,091,970	707,416,459		707,416,459
1991-1992		128,796,462	272,445,477	50,583,264	279,145,924	730,971,127		730,971,127
1992-1993		125,355,656	279,697,020	48,650,320	256,186,342	709,889,338		709,889,338
1993-1994		122,717,732	296,888,378	53,593,661	266,369,531	739,569,302		739,569,302
1994-1995		128,628,234	312,710,316	49,632,997	291,159,098	782,130,645		782,130,645
1995-1996		128,617,493	335,755,333	53,906,871	316,055,989	834,335,686		834,335,686
1996-1997		140,446,673	332,899,906	54,641,394	328,507,496	856,495,469		856,495,469
1997-1998		144,067,977	361,602,189	50,144,609	330,115,576	885,930,351		885,930,351
1998-1999		145,459,046	370,417,475	50,924,267	332,003,165	898,803,953		898,803,953
1999-2000		155,665,928	378,256,650	54,504,747	332,662,624	921,089,949	$ 53,429,861	974,519,810
2000-2001		152,810,738	341,033,997	54,270,230	333,318,615	881,433,580	85,793,174	967,226,754
2001-2002	Estimated	156,724,830	326,900,000	54,600,000	332,000,000	870,224,830	107,425,000	977,649,830
2002-2003	Recommended	174,143,484	323,500,000	54,600,000	332,000,000	884,243,484	105,000,000	989,243,484



CITY OF DETROIT
GENERAL FUND
MAJOR REVENUE SOURCES WITH CASINO ENHANCEMENTS
FOR THE FISCAL YEARS 1987-1988 THROUGH 2002-2003

Fiscal Year		Property Tax	Income Tax	Utility User Tax	State Revenue Sharing	Totals Before Casino	Casino Wagering Tax	Casino Enhancement	Totals
1987-1988		$ 118,200,532	$ 273,655,479	$ 50,393,292	$ 247,890,740	$ 690,140,043			$ 690,140,043
1988-1989		119,876,137	283,749,003	51,228,062	263,336,813	718,190,015			718,190,015
1989-1990		118,682,602	267,685,618	56,295,133	282,210,803	724,874,156			724,874,156
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1996-1997		140,446,673	332,899,906	54,641,394	328,507,496	856,495,469			856,495,469
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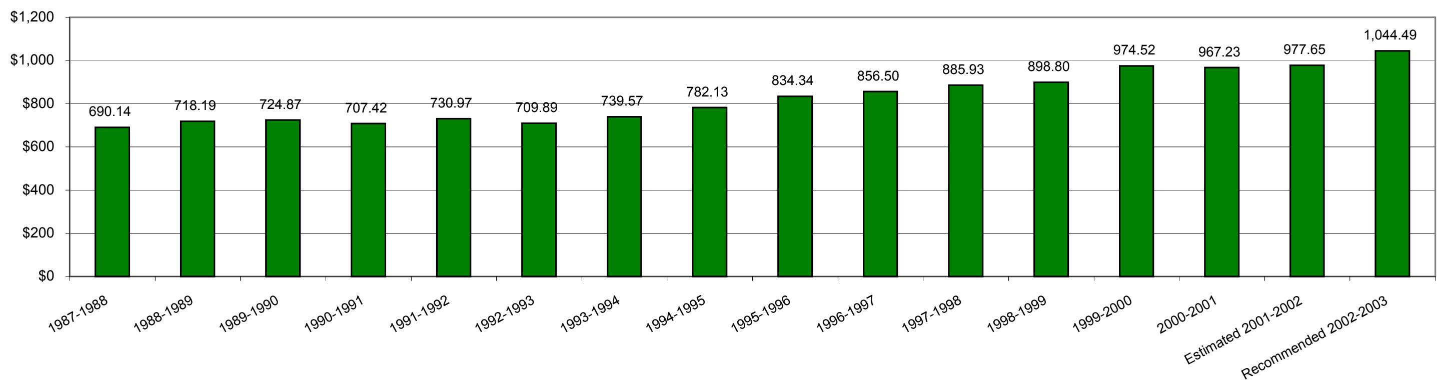

By raising taxes instead of reducing our cost of operations, we ran away from the inevitable ... but we couldn't hide. Reality is catching up with us. We must find ways to cope with escalating costs and greater demands by our citizens – ways other than by raising taxes.

There are other ways to meet these challenges without imposing high taxes on our citizens. High taxes and poor services, together, are destroying a once great city. We need to become a competitive city. The reason Detroit became a great city decades ago, was because it was competitive. We attracted people from near and far because it was a desirable place to work and live. Now, other cities are attracting our residents as we once did. We need to become attractive again. We need to become a competitive city. Otherwise, we continue to lose the flight fight.

Charging more for City services and reducing City services are the easy ways to address budget issues. But they are shortsighted and insidious. The City will save $500,000 by closing the Belle Isle Zoo, and raise $3 million by increasing bus fares. However, if Detroit is to be competitive in our region, we will have to provide more and better services for less. Otherwise, our citizens will head for the borders – to Southfield, to Harper Woods, and to other cities in the metropolitan area.

Until we realize that we must be competitive with other communities, we will suffer the fate of the American automobile companies that were immune to foreign competition for decades. Because they were not competitive, they lost market share that they may never recover. They began to understand that their survival required that they become competitive in quality, price, and service. Now the consumer is better off.

Our government must also become competitive if we are to survive, and if our citizens are to become better off. To become competitive, we must become efficient. We must provide quality service at a competitive price. Otherwise, we are tempting fate as Hamtramck and Highland Park have done. We must seize the opportunities made known to us by the City's consultants and auditors.

To the City's credit, we are currently implementing plans to collect delinquent property taxes, and efforts are underway to conduct an accounts payable recovery audit.

With just one-half of the property tax amnesty period behind us, the administration's property tax initiative has already been an unqualified success, with about $3 million in general fund collections over the previous year's comparable period. This was a case of picking the "low-hanging fruit."

Another quick and easy opportunity is the accounts payable recovery audit, which could generate a minimum of $2 million for the City next year.

However, the majority of the opportunities, made known to us, have yet to be pursued. Some of those opportunities, such as those described in the Department of Transportation and the Workers' Compensation performance audit reports, can only come to fruition by reengineering the respective agencies' archaic processes. Other opportunities, such as the fiber optics network, described in the Telecommunications performance audit, will require an investment. Still other opportunities, such as the perennially high level of claims paid out by the City, need to be vigorously dealt with as an infectious disease that is eating away at the City's health.

Last year, I presented to Your Honorable Body a list of potential **annual** cost savings and revenue enhancements that could be used to fund City operations. These are the "seeds" we must plant today, not only to lay the foundation for a return of our city to world-class status, but to avoid a famine tomorrow.

Short-term Opportunities (1 to 3 years required to generate benefits)	
• Accounts Payable Recovery Audit	$2,000,000
• Maintenance Contract Consolidation	2,000,000
• Property Tax Collection	6,000,000
• Commercial Refuse Collection	6,000,000
Total Short-term Opportunities	**$16,000,000**
Medium-term Opportunities (3 to 5 years required to generate benefits)	
• Transportation Department	$20,000,000
• Workers' Compensation and Claims	5,000,000
Total Medium-term Opportunities	**$25,000,000**
Long-term Opportunities (6 to 10 years required to generate benefits)	
• **Telecommunications**	**$3,000,000**
Total Annual Savings and Revenue Enhancements	**$44,000,000**

Following are some of the ways the City could use an additional $44 million a year:

- Paying the City's portion for the Belle Isle Master Plan
- Upgrading of each of the City's recreation centers
- Upgrading of the City's parks and playgrounds
- Providing wage increases for City employees
- Reopening the Belle Isle Zoo

Whether the actual opportunities are $44 million, $34 million, or $24 million, they represent realistic dollars that are forever lost for every year we delay. Most of the opportunities represent an annuity. In other words, the opportunities will not be limited to $24 million, $34 million, or $44 million. The total value of the opportunities will be the life of the opportunity times the annual savings, e.g., ten years times $24 million, twenty years times $34 million, or thirty years times $44 million, etc. The sooner we plant the seeds, the sooner we can begin harvesting our crop.

The $44 million described above represents the results of benchmarking and reviewing a small portion of the City's agencies and processes. There is much, much more opportunity than what is listed here. As noted in the 1998 benchmarking study commissioned by Detroit Renaissance, the City's agencies are laden with inefficient processes. In addition, there is no risk management program, to speak of, to address over $50 million annually in payments on claims against the City.

Most of the financial opportunities available to the City are opportunities for cost reduction. The typical question that arises at budget time is "How can we get more money?" Although there are "revenue" opportunities that should be pursued, such as the telecommunications project, we need to develop a "less cost" mentality to complement our "more revenue" mentality. One way to engender a "less cost" mentality is to provide incentives to agencies by tying part of merit increases to the agencies' reductions in net tax costs as well as improvements in City services.

Each agency should develop a strategic plan that outlines its goals and its strategy for attaining its goals. The goals should address the opportunities to enhance revenues, reduce the costs of, and improve the quality of City services, and close the gaps identified in the DRMS Analysis and other reports. The plans should include the time frames, the resources required to accomplish the goals, and the responsible person. Goals without a plan are worthless. Goals without timelines are meaningless. Goals without the resources to carry them out are useless. And goals without accountability are senseless.

The City should not await a crisis to develop a plan to address our infrastructure problems and poor processes. The City's Water and Sewerage Department required a court order before it began to seriously address its deficiencies. The City's high income tax rate was not addressed until the State legislature gave the City an ultimatum.

City officials should, likewise, give an ultimatum to each agency. For example, at budget time, each City agency should be required to provide City Council with a plan that addresses issues related to that department. The plan should include timelines and resources required to achieve the goals. City Council should examine the goals and weigh the pros and cons of each request against the required resources (money), based on other City priorities. Once the agency is provided the resources to achieve the goals, the department head must be held accountable for achieving the goals. The following year, at budget time, the department should be required to defend its performance.

Also, when City agencies appear before City Council to discuss their budget requests, they should come prepared to discuss the significance of one-percent, three-percent, and five-percent cuts, in the event cuts are required. This would not only provide City Council with more information to assess the impact of any cuts in departmental appropriations during budget deliberations, but also provide the basis for a contingency plan, which should be a part of any budget. By requiring contingency plans for each agency at the beginning of the year, the City will be in position to act quicker, in the event of an economic setback.

The City must not only plan for short-term (one year) contingencies, but also for our long-range (over five years) needs. The proposed budget upon which you will be deliberating is shortsighted. With over $160 million of revenue projected from the casinos next year, no pieces of our long-range vision have been placed into the jigsaw. For example, the telecommunications infrastructure recommended by Plante & Moran would not only pay for itself within six years, but could also provide a major source of revenue for the next several decades. The beauty of the telecommunications project is that the City benefits through cost savings, even if no revenue is generated, as unlikely as that may be. Fiber optics networks have been described as the "water" of the twenty-first century because of the similarity between fiber's importance to cities in today's economy, to the importance of rivers to cities throughout history. Detroit needs to develop a fiber optics network, not only to reduce costs and increase revenues, but also to provide the infrastructure to attract businesses. But we cannot reap until we sow. We have the seeds, but we are eating them instead of planting them.

The City needs to plan to sow the seeds from its windfall, strategically. To use the Casino "enhancement" for operations is disturbing and, in my opinion, a travesty of financial responsibility. By **investing** our lump-sum receipts, which only come once in a blue moon, the children of our children's children can reap the rewards. By **spending** our lump-sum receipts, we become a poor city. We need to sell the Detroit House of Correction (Dehoco) property and invest in our telecommunications network. We need to utilize the Casino enhancements and begin to implement the Belle Isle master plan. We need to aggressively pursue the revenue collections and cost savings opportunities and offer more, not less, City services to our beleaguered citizens.

The windfalls from the casino development agreements and the Dehoco land sale, need to be infused into a strategic plan that includes the City's telecommunications infrastructure, recreation centers, Belle Isle and other parks, and the people mover. If no plan is developed and implemented, our dreams and visions will not become a reality.

Revenues in the Mayor's proposed budget are the second highest budgeted revenues in our history. Yet, we are told that we not only cannot afford to invest in our infrastructure, but we must also close the Belle Isle Zoo to save a half-million dollars, raise bus fares to generate $3 million, while using a casino enhancement of $55 million to balance our books. Unless the City reduces its cost of operations, we will not only be unable to invest in our future, we will watch our infrastructure continue to deteriorate, find it necessary to continue to reduce City services, and continue to provide inadequate equipment to our agencies.

As you know, the City's costs of providing services continue to escalate. We are saddled with many costs that we inherited. One such cost is the cost of operating the people mover system. The system, which transported approximately 1.2 million riders last year cost the City almost nine dollars per rider. To put that into perspective, DDOT's inefficient bus system costs the City less than two dollars per rider. The City has been able to defer necessary maintenance on the people mover system for several years. A 1998 audit, which was vehemently contested by the Department of Transportation, warned that the system was deteriorating and would soon require a major investment. The Agency's position prevailed, and the system continues to be provided with minimal funds annually, to meet its immediate needs. As the system ages, breakdowns will become more prevalent, replacement parts will become more scarce, and costs will continue to escalate.

Other examples of deferred maintenance and improvements are the City's streets, lots, public lighting, Fire Department apparatus, Police Department equipment, the Human Resources and Payroll information technology systems, recreation centers, ball diamonds, playgrounds, Belle Isle and other parks, to name some of the most notable.

Our city does not need to continue to defer routine maintenance and the replacement of obsolete equipment. We are not broke. Our general fund revenues are $100 million greater than they were five years ago. And we were not broke five years ago. We must begin to seize opportunities for additional revenues when they become known to us; we must learn to run our operations efficiently; and we must invest our limited resources in the City's infrastructure and in long-term assets. Otherwise, we will be a poor city.

A common remark by respondents to a recent citizen satisfaction survey, conducted by the Office of the Auditor General, was that Detroit is an expensive City in which to live, due to the high income taxes, high property taxes, and high insurance - for the services provided.

If we fail to operate efficiently; if we fail to reduce our taxes; if we fail to improve City services, many of our young adults will continue to migrate to other cities, seeking lower taxes and better city services. Our population will continue to decline. Our demographics will reflect a greater percentage of seniors and citizens of lesser means. As more of our baby boomers retire and are no longer required to pay the City income tax, and as our City income tax rate inches closer to the inevitable two-percent rate, will we be prepared? Or will we blame Lansing for the plight for which we had ten years to prepare?

We continue to budget year by year, painting ourselves into a corner, and putting our future solely into the hands of fate. We continue to spend money and make commitments without regard to the long-term consequences – and hope that something good will happen in the meantime. And when something good fails to happen, it becomes the fault of the economy. Failing to prepare for economic downturns, rivals living in Michigan and not preparing for snow.

Six years from now, the City's income tax revenues are projected to be $50 to $100 million less than the current year due to the reduction in tax rates, a declining population, and more retirees. If we do not lay the groundwork immediately, we will be a poor city by 2008.

Since we cannot raise taxes, and we cannot add any additional casinos, we are left with two alternatives: Either improve our processes and become a more efficient government, or remain deprived. Improved processes do not just happen; and "continuous improvement" will not take us far enough. If we are to achieve dramatic improvements in cost, quality, and service, we must reengineer the City's outmoded processes. And we need to begin today.

Not only must we reengineer agencies that provide services to our citizens, we must also reengineer the business processes of our support departments and divisions, such as Human Resources, Purchasing, and Vehicle Maintenance.

We need to begin harnessing the "water" of the twenty-first century, sow the seeds of economy and efficiency, and nurture our seedlings for the next six years, if we are to harvest our crop in time. The ground is fertile. The season is right. The rest is up to us.

If not now, when? If not us, who? If not this, what?

Respectfully submitted,

Joseph L. Harris
Auditor General